

**CITY OF ONAWAY
ONAWAY, MICHIGAN**

Financial Statements
For the Fiscal Year Ended
March 31, 2005

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C.
580 S. Nicolet, P.O.Box 996
Mackinaw City, MI 49701

JAN 04 2006

Michigan Department of Treasury
496 (2-04)**Auditing Procedures Report**

Issued under P.A. 2 of 1968, as amended.

LOCAL AUDIT & FINANCE DIV.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Onaway	County Presque Isle
Audit Date 3/31/05	Opinion Date 11/30/05	Date Accountant Report Submitted to State: 12/23/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

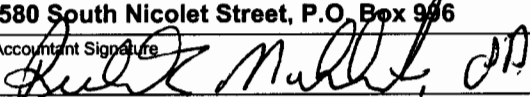
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Richard E. Mahlmeister, CPA, PC			
Street Address 580 South Nicolet Street, P.O. Box 996		City Mackinaw City	State MI
Accountant Signature 		ZIP 497014	Date 12-23-05

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INDEPENDENT AUDITORS' REPORT

November 30, 2005

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Onaway, Onaway, Michigan**, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Onaway's** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

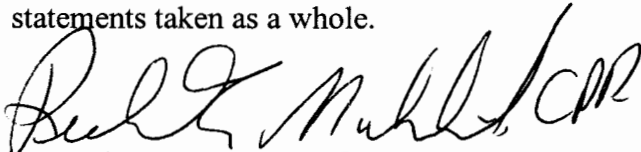
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Onaway, Onaway, Michigan** as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the **City of Onaway** has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended and interpreted, as of April 1, 2004.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2005, on my consideration of the **City of Onaway's** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Onaway's** basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the **City of Onaway, Onaway, Michigan**. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Richard E. Mahlmeister, C.P.A.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2005. Please read it in conjunction with the financial statements, which immediately follow this section. Please be advised that comparative analysis to the previous year's financial results is not available, as this year is the first year of implementation of GASB 34. It will be provided in future years when prior information is available.

FINANCIAL HIGHLIGHTS

- The City's combined net assets increased \$3,190,733. Separately, governmental activities increased \$583,095 while business-type net assets increased \$2,607,638. Both increases are due to significant grants for both our sewer and courthouse restoration projects.
- The total cost of basic programs, excluding capital outlay and debt principal payments were \$597,197 for governmental activities and \$495,295 for business-type activities.
- Total revenues were \$1,262,292 for governmental activities (including \$620,823 of capital grants and contributions) and \$3,020,933 for business-type activities (including \$2,510,075 for capital grants and contributions, and \$329,128 of operating grants and contributions).
- The City repaid \$74,634 of long-term debt during the fiscal year. The City issued 2004 General Obligation Unlimited Tax Bonds of \$150,000 for construction and restoration of the courthouse.
- At the end of the fiscal year, the General Fund had approximately \$262,000 of unreserved fund balance available for future expenditures. This represents approximately 63% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) notes to the financial statements. This report also contains required and other supplementary information. The basic financial statements include two different kinds of statements that present different views of the City.

Government-wide financial statements. The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include legislative, general government, public safety, public works and recreation and culture. The business-type activities include water and sewer operations.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds, not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants, they may also be created by the City Commission. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The City has the following types of funds:

Governmental Funds

Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The City maintains six individual governmental funds; General Fund, Major Street and Local Street Funds, Onaway Area Fire Board, Courthouse Construction Fund and Courthouse Debt Fund. All of which we consider major funds. The City funds are financed primarily by both property tax revenue and state shared revenues. A budgetary comparison statement has been provided for the general and special revenue funds to demonstrate compliance with the budgets.

Proprietary Funds

The City maintains two different proprietary funds, which are reported as business-type activities in the government-wide financial statements. The City's water and sewer enterprise funds are both considered major funds. The City also uses an Internal Service Fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiduciary Funds

The City acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The City maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the City's government-wide financial statements since the assets do not belong to the City. The City maintains a Tax Collection Fund in this category.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$1,451,717 for the governmental activities and \$6,110,881 for the business-type assets, as of March 31, 2005.

A large portion of the City's net assets are invested in capital assets, less any debt to acquire those assets. The City uses those assets to provide services to our citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

Following is a summary of the City's net assets at March 31, 2005:

	Governmental Activities	Business-Type Activities	Total
Current assets	\$773,774	\$469,518	\$1,243,292
Noncurrent assets	1,106,658	7,527,338	8,633,996
Total Assets	1,880,432	7,996,856	9,877,288
Current liabilities	113,244	334,975	448,219
Long-term liabilities	315,471	1,551,000	1,866,471
Total Liabilities	428,715	1,885,975	2,314,690
Net Assets:			
Invested in capital assets, net of related debt	797,504	5,933,736	6,731,240
Restricted	13,718	26,459	40,177
Unrestricted	640,495	150,686	791,181
Total Net Assets	<u>\$1,451,717</u>	<u>\$6,110,881</u>	<u>\$7,562,598</u>

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Following is a summary of the City's activities for the year ended March 31, 2005:

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for services	\$125,981	\$181,730	\$307,711
Operating grants and Contributions	-	329,128	329,128
Capital grants and Contributions	620,822	2,510,076	3,130,898
General Revenues:			
Property taxes	266,496	-	266,496
State-shared revenues	237,246	-	237,246
Interest income	3,589	-	3,589
Other	8,157	-	8,157
Total Revenues	1,262,291	3,020,934	4,283,225
Expenses:			
Legislative	13,414	-	13,414
General government	194,422	-	194,422
Public safety	144,159	-	144,159
Public works	206,074	-	206,074
Recreation and culture	21,733	-	21,733
Interest on long-term debt	17,394	-	17,394
Sewer expenses	-	368,840	368,840
Water expenses	-	126,456	126,456
Total Expenses	597,196	495,296	1,092,492
Increase (Decrease) in net Assets before transfers	665,095	2,525,638	3,190,733
Transfers	(82,000)	82,000	-
Change in net assets	583,095	2,607,638	3,190,733
Net assets-beginning of year	868,622	3,503,243	4,371,865
Net assets-end of year	\$1,451,717	\$6,110,881	\$7,562,598

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The General Fund is the chief operating fund of the City. General Fund balance decreased from \$303,879 on March 31, 2004 to \$287,729 on March 31, 2005. This is primarily because \$50,414 in courthouse restoration donations, shown in the General Fund on March 31, 2004, no longer is shown in that fund. In fact, the health of the unreserved fund balance of the General Fund improved during the fiscal year, as it has increased \$12,556 from \$249,433 on March 31, 2004 to \$261,989 on March 31, 2005. This resulted despite General Fund contributing \$82,000 to the Sewer Fund in 2004-05.

The City's Major and Local Street Funds both increased in 2004-05. The Major Street Fund balance increased \$18,768, from \$91,442 on March 31, 2004 to \$110,210 on March 31, 2005, while the Local Street Fund balance increased \$1,033, from \$28,661 on March 31, 2004 to \$29,694 on March 31, 2005. During the year the Local Street Fund has been using grant funds received for the construction of a new industrial park road into the Renaissance Zone. Both street funds have become healthy because the City has not been investing money in street resurfacing projects while the sewer system is being constructed. The intent is to undergo a street resurfacing project that includes both major and local streets in the future, once the sewer project is complete.

The Courthouse Construction Fund had a fund balance of \$77,377 on March 31, 2005. This was the first year the City had a capital projects fund. Grant and loan funds have been used to renovate Onaway's historic courthouse. Also, donations received from the public have been and will be used to complete the renovation.

Courthouse Debt Fund. Voters authorized the City to borrow \$150,000 for the restoration of the historic Onaway Courthouse. That will be repaid over 40 years. This is the first year the City has had the courthouse debt fund. The fund balance of \$13,718 on March 31, 2005 is for the following fiscal year's payment.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Sewer Fund. The City was in the process of constructing a sewer system and wastewater treatment plant in 2004-05. The City's net asset balance on March 31, 2005 was \$5,402,143, up \$2,427,419. Much of this is due to capital assets consisting mainly of construction in progress. Total construction costs of the sewer system will be approximately \$13.5 million, of which \$11 million is funded through state and federal grants and the remainder is loan. While debt is paid with system-generated revenue, some of the operational costs are currently being paid with General Fund monies. This will be the case until construction is complete, and all customers are connected and paying for the service. The General Fund contributed \$82,000 to the sewer fund in 2004-05.

Water Fund. The Water Fund net assets increased \$180,219, from \$528,519 on March 31, 2004 to \$708,738 on March 31, 2005. This is in large part due to grants that allowed for water main construction in the area of the City's Renaissance Zone. Also, the City had been paying approximately \$2,000 per month to retire a loan taken out several years earlier for water tower improvements and water main looping. That loan was retired early in the fiscal year.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

BUDGETARY HIGHLIGHTS

Over the course of the year, the City Commission reviews its expenditures and compares to the adopted budget to determine if any amendments to the original budget need to be made. During the year, amendments were made to the original adopted budget mainly to accommodate transfers to the sewer fund and courthouse construction funds for these two City projects. Additionally, amendments to the Local Street Fund were made to accommodate street construction planned for grants received during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

At March 31, 2005 the City had \$8,594,056 (net of accumulated depreciation) in a broad range of capital assets, including buildings, equipment, sewer and courthouse construction in progress, and the water system. The most significant addition to City's capital assets was the construction in progress of the historic courthouse and the ongoing construction of the sewer plant. Please note that additional information can be found on the City's capital assets in the accompanying notes to the financial statements of this report.

At March 31, 2005 the City had total long-term debt outstanding of \$1,904,935. Bonds were issued in the amount of approximately \$150,000 for the historic courthouse/City Hall. The City has reduced its debt by \$74,634 by making scheduled payments. This includes the retirement of a Water Fund note, which was used to make water tower and other water system improvements. Please note that additional information on the City's long-term debt can be found in the accompanying notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City assumed an increase in property tax revenue of three percent, based on past experience of minimal growth. The City assumed a decrease in revenue sharing payments from the state, based on past experience and state budget projections. The City expects to contribute additional General Fund dollars to the Sewer Fund as many customers are not yet connected and paying rates, while the plant is in full operation. This will limit the City's spending ability on other projects in 2005-06. It is not projected that water rates will be raised, as the City now is able to keep some funds in reserve for emergencies and future repairs and its rate payers are receiving a sewer bill for the first time. The City anticipates constructing a new garage for its public works/water department in 2005-06, but that will be done using the proceeds of the sale of existing DPW property and a grant. Construction of the sewer system is expected to continue through the end of the 2006 construction season.

CONTACTING CITY MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the City's finances and to demonstrate the City's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the City Manager at 989.733.8313 (City Hall).

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ONAWAY
STATEMENT OF NET ASSETS
MARCH 31, 2005

ASSETS	PRIMARY GOVERNMENT		TOTALS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Cash and cash equivalents	\$606,708	\$196,243	\$802,951
Cash and cash equivalents, restricted	17,489	211,089	228,578
Restricted investments	-	16,500	16,500
Receivables	149,577	40,732	190,309
Prepaid expense	-	4,954	4,954
Financing costs	8,338	31,602	39,940
Capital assets (Net of Accumulated Depreciation)	1,098,320	7,495,736	8,594,056
TOTAL ASSETS	1,880,432	7,996,856	9,877,288
LIABILITIES			
Accounts payable	63,400	122,845	186,245
Accrued expenses	4,891	-	4,891
Deferred revenue	17,489	201,130	218,619
Long-term liabilities:			
Due within one year	27,464	11,000	38,464
Due in more than one year	315,471	1,551,000	1,866,471
TOTAL LIABILITIES	428,715	1,885,975	2,314,690
NET ASSETS			
Invested in capital assets, net of related debt	797,504	5,933,736	6,731,240
Restricted for debt service	13,718	26,459	40,177
Unrestricted	640,495	150,686	791,181
TOTAL NET ASSETS	\$1,451,717	\$6,110,881	\$7,562,598

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	\$13,414	\$ -	\$ -
General government	194,422	9,670	-
Public safety	144,159	2,124	-
Public works	206,075	114,187	-
Recreation and culture	21,733	-	-
Interest on long-term debt	17,394	-	-
Total governmental activities	597,197	125,981	-
Business-type activities			
Sewer	368,839	20,983	326,438
Water	126,456	160,747	2,690
Total business-type activities	495,295	181,730	329,128
Total primary government	\$1,092,492	\$307,711	\$329,128

General Revenues
 Property taxes
 State-shared revenues
 Unrestricted interest income
 Other
 Transfers - internal activities

 Total general revenues and transfers

 Change in net assets

 Net assets, beginning of year

 Net assets, end of year

The accompanying notes are an integral part of these financial statements.

**Net (Expense) Revenue
and changes in Net Assets**

Primary Government

Capital Grants and Contributions	Governmental Activities	Business-Type Activities	TOTAL
\$ -	(\$13,414)	\$ -	(\$13,414)
-	(184,752)	-	(184,752)
128,821	(13,214)	-	(13,214)
492,002	400,114	-	400,114
-	(21,733)	-	(21,733)
-	(17,394)	-	(17,394)
620,823	149,607	-	149,607
2,366,837	-	2,345,419	2,345,419
143,238	-	180,219	180,219
2,510,075	-	2,525,638	2,525,638
\$3,130,898	\$149,607	\$2,525,638	\$2,675,245
	266,496	-	266,496
	237,246	-	237,246
	3,589	-	3,589
	8,157	-	8,157
	(82,000)	82,000	-
	433,488	82,000	515,488
	583,095	2,607,638	3,190,733
	868,622	3,503,243	4,371,865
	\$1,451,717	\$6,110,881	\$7,562,598

FUND FINANCIAL STATEMENTS

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2005

ASSETS	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
Cash and cash equivalents	\$209,688	\$99,210	\$52,340
Taxes receivable	66,362	-	-
Accounts receivable	11,629	-	-
Due from other funds	50	-	-
Receivable from other governments	-	11,000	5,486
TOTAL ASSETS	\$287,729	\$110,210	\$57,826
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$10,643
Deferred revenue	-	-	17,489
TOTAL LIABILITIES	-	-	28,132
FUND BALANCES			
Reserved for:			
Courthouse renovation	24,564	-	-
Recreation equipment	1,176	-	-
Debt service	-	-	-
Unreserved:			
Designated for:			
Subsequent years' expenditures	44,842	-	-
Undesignated	217,147	110,210	29,694
TOTAL FUND BALANCES	287,729	110,210	29,694
TOTAL LIABILITIES AND FUND BALANCES	\$287,729	\$110,210	\$57,826

The accompanying notes are an integral part of these financial statements.

ONAWAY AREA FIRE BOARD FUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
\$174,047	\$77,377	\$11,375	\$624,037
-	-	2,343	68,705
-	-	-	11,629
-	-	-	50
-	52,757	-	69,243
\$174,047	\$130,134	\$13,718	\$773,664
\$ -	\$52,757	\$ -	\$63,400
-	-	-	17,489
-	52,757	-	80,889
-	-	-	24,564
-	-	-	1,176
-	-	13,718	13,718
-	-	-	44,842
174,047	77,377	-	608,475
174,047	77,377	13,718	692,775
\$174,047	\$130,134	\$13,718	\$773,664

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2005

Reconciliation of fund balances on the balance sheets for governmental activities
to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$692,775**

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	1,199,178
Subtract: accumulated depreciation	(109,020)

Deferred costs used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: financing costs	8,338
Subtract: accumulated amortization	-

Internal service funds are used by management to charge the costs of certain activities,
such as equipment costs, to individual funds. The assets and liabilities of the internal
fund are included in governmental activities in the statement of net assets.

5,072

Certain liabilities are not due and payable in the current period, and therefore
are not reported as liabilities in the funds, and consist of:

Subtract: bonds and note payable	(342,935)
Add: internal service fund note payable	3,200
Subtract: compensated absences	(42,119)
Subtract: accrued interest on long-term liabilities	(4,891)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$1,409,598**

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
REVENUES			
Taxes	\$257,343	\$ -	\$ -
State shared revenues	138,720	61,498	37,028
Federal revenues	-	-	81,852
Licenses and permits	567	-	-
Charges for services	69,366	-	-
Fines and forfeits	2,124	-	-
Interest	888	510	164
Rents	9,670	-	-
Donations	47,168	-	-
Other	8,157	-	-
TOTAL REVENUES	534,003	62,008	119,044
EXPENDITURES			
Current:			
Legislative	13,414	-	-
General government	192,931	-	-
Public safety	112,534	-	-
Public works	50,843	27,649	124,958
Recreation and culture	21,354	-	-
Capital outlay	26,663	-	-
Debt service:			
Principal	-	-	7,000
Interest and fees	-	-	1,644
TOTAL EXPENDITURES	417,739	27,649	133,602
REVENUES OVER (UNDER) EXPENDITURES	116,264	34,359	(14,558)
OTHER FINANCING SOURCES			
Operating transfers in	-	-	15,591
Operating transfers (out)	(132,414)	(15,591)	-
Bond Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(132,414)	(15,591)	15,591
NET CHANGES IN FUND BALANCES	(16,150)	18,768	1,033
FUND BALANCES, BEGINNING OF YEAR	303,879	91,442	28,661
FUND BALANCES, END OF YEAR	\$287,729	\$110,210	\$29,694

The accompanying notes are an integral part of these financial statements.

ONAWAY AREA FIRE BOARD FUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$9,153	\$266,496
-	-	-	237,246
-	270,326	-	352,178
-	-	-	567
44,254	-	-	113,620
-	-	-	2,124
1,329	684	14	3,589
-	-	-	9,670
128,821	92,656	-	268,645
-	-	-	\$8,157
174,404	363,666	9,167	1,262,292
-	-	-	13,414
-	-	-	192,931
20,140	-	-	132,674
-	-	-	203,450
-	-	-	21,354
-	478,365	-	505,028
14,505	-	2,000	23,505
8,092	8,338	2,767	20,841
42,737	486,703	4,767	1,113,197
131,667	(123,037)	4,400	149,095
-	50,414	-	66,005
-	-	-	(148,005)
-	150,000	-	150,000
-	200,414	-	68,000
131,667	77,377	4,400	217,095
42,380	-	9,318	475,680
\$174,047	\$77,377	\$13,718	\$692,775

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$217,095

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year	505,028
Subtract: depreciation expense	(12,361)

Governmental funds report deferred costs, such as financing costs, as expenditures. However, those costs are allocated over the related debt repayment period as annual amortization expense in the statement of activities.

Add: financing costs capitalized during the current year	8,338
Subtract: amortization expense	-

Bond proceeds provide current financial resources to governmental funds however, issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Subtract: bond proceeds	(150,000)
Add: principal payments on long-term liabilities	23,505

Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: accrued interest on bonds.	(4,891)
Subtract: increase in the accrual of compensated absences.	(1,971)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

(1,648)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$583,095

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2005**

ASSETS	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CURRENT ASSETS:				
Cash and cash equivalents	\$151,892	\$44,351	\$196,243	\$110
Cash and cash equivalents, restricted	170,523	40,566	211,089	-
Restricted investments	-	16,500	16,500	-
Accounts receivable	10,965	29,517	40,482	-
Receivable from other governments	250	-	250	-
Prepaid expenses	4,954	-	4,954	-
TOTAL CURRENT ASSETS	338,584	130,934	469,518	110
PROPERTY AND EQUIPMENT				
Land and improvements	13,960	6,614	20,574	-
Water system	-	1,050,444	1,050,444	-
Water system - construction in progress	-	143,238	143,238	-
Sewer system - construction in progress	6,749,535	-	6,749,535	-
Machinery and equipment	-	-	-	249,009
Less: accumulated depreciation	-	(468,055)	(468,055)	(240,847)
NET CAPITAL ASSETS	6,763,495	732,241	7,495,736	8,162
OTHER ASSETS:				
Financing costs (net of amortization)	31,602	-	31,602	-
TOTAL ASSETS	7,133,681	863,175	7,996,856	8,272
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	104,015	18,830	122,845	-
Deferred revenue	170,523	30,607	201,130	-
Bonds payable	-	11,000	11,000	-
Note payable	-	-	-	3,200
TOTAL CURRENT LIABILITIES	274,538	60,437	334,975	3,200
LONG-TERM LIABILITIES:				
Bonds payable	1,457,000	94,000	1,551,000	-
TOTAL LONG-TERM LIABILITIES	1,457,000	94,000	1,551,000	-
TOTAL LIABILITIES	1,731,538	154,437	1,885,975	3,200
NET ASSETS:				
Invested in capital assets, net of related debt	5,306,495	627,241	5,933,736	-
Restricted	-	26,459	26,459	-
Unrestricted	95,648	55,038	150,686	5,072
TOTAL NET ASSETS	\$5,402,143	\$708,738	\$6,110,881	\$5,072

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2005

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
OPERATING REVENUES				
Charges for services	\$20,983	\$160,684	\$181,667	\$51,078
Other revenue	-	63	63	210
TOTAL OPERATING REVENUES	20,983	160,747	181,730	51,288
OPERATING EXPENSES				
Salaries and wages	8,798	27,295	36,093	7,618
Fringe benefits	1,405	7,230	8,635	3,639
Office administration	-	16,000	16,000	-
Gasoline	-	-	-	4,902
Supplies	634	7,427	8,061	7,144
Contracted service	23,554	7,226	30,780	1,439
Maintenance/repairs	-	-	-	3,409
Communication	661	557	1,218	595
Transportation	833	-	833	60
Utilities	1,883	19,293	21,176	6,967
Education and training	-	200	200	-
Insurance	204	2,672	2,876	4,237
Other	4,429	752	5,181	-
Equipment rentals	-	9,251	9,251	-
Depreciation	-	22,729	22,729	12,348
TOTAL OPERATING EXPENSES	42,401	120,632	163,033	52,358
OPERATING INCOME (LOSS)	(21,418)	40,115	18,697	(1,070)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	626	626	46
Special assessments	-	2,064	2,064	-
Federal revenue	2,366,837	143,238	2,510,075	-
State revenue	326,438	-	326,438	-
Other contracted service	(326,438)	-	(326,438)	-
Interest expense	-	(5,824)	(5,824)	(624)
TOTAL NON-OPERATING INCOME (EXPENSES) - NET	2,366,837	140,104	2,506,941	(578)
INCOME (LOSS) BEFORE TRANSFERS	2,345,419	180,219	2,525,638	(1,648)
TRANSFER IN	82,000	-	82,000	-
CHANGE IN NET ASSETS	2,427,419	180,219	2,607,638	(1,648)
NET ASSETS, BEGINNING OF YEAR	2,974,724	528,519	3,503,243	6,720
NET ASSETS, END OF YEAR	\$5,402,143	\$708,738	\$6,110,881	\$5,072

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2005**

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$10,018	\$163,178	\$173,196	\$51,078
Other receipts	-	63	63	210
Cash paid for employees wages and benefits	(10,203)	(34,525)	(44,728)	(11,257)
Cash paid for interfund services	-	(16,000)	(16,000)	-
Cash paid for other operating expenses	(37,152)	(47,172)	(84,324)	(28,753)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(37,337)	65,544	28,207	11,278
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Federal revenues	2,537,360	173,845	2,711,205	-
Purchase of capital assets	(2,267,715)	(124,614)	(2,392,329)	-
Special assessments	-	2,064	2,064	-
Principal and interest paid on capital debt	(25,000)	(20,573)	(45,573)	(12,004)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	244,645	30,722	275,367	(12,004)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
State revenues	326,188	-	326,188	-
Other non-capital contracted services	(326,188)	-	(326,188)	-
Transfer in	82,000	-	82,000	-
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	82,000	-	82,000	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	626	626	46
Repayment of amounts due to other funds	-	(22,000)	(22,000)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	(21,374)	(21,374)	46
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	289,308	74,892	364,200	(680)
CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR	33,107	10,025	43,132	790
END OF YEAR	\$322,415	\$84,917	\$407,332	\$110
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES				
Operating loss	(\$21,418)	\$40,115	\$18,697	(\$1,070)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	-	22,729	22,729	12,348
Changes in assets and liabilities:				
Receivables	(10,965)	2,494	(8,471)	-
Prepaid expenses	(4,954)	-	(4,954)	-
Accrued expenses	-	206	206	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(\$37,337)	\$65,544	\$28,207	\$11,278

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION FUND
MARCH 31, 2005**

ASSETS

Cash	<u>\$50</u>
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LIABILITIES

Due to other funds	<u>\$50</u>
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NET ASSETS

Fiduciary Net Assets	<u>\$ -</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
TAX COLLECTION FUND
YEAR ENDED MARCH 31, 2005

ADDITIONS

Property tax collections for other governmental units	<u>\$221,125</u>
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DEDUCTIONS

Property tax distributions to other governmental units	<u>221,125</u>
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Change in Net Assets	<u>-</u>
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Fiduciary Net Assets - Beginning of Year	<u>-</u>
--	----------

Fiduciary Net Assets - End of Year	<u><u>\$ -</u></u>
------------------------------------	--------------------

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Onaway, Onaway, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

On April 1, 2004, the City of Onaway adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the City's financial statements has shifted from a fund focus to a government-wide focus.

THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the City and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, ability to significantly influence operations, fiscal dependency, and whether the financial statements would be misleading if data were not included. The component units discussed below are included in the City's reporting entity.

Based on the foregoing criteria, including the consideration of the significance of their operational or financial relationship with the City, the financial statements of the Onaway Area Fire Board is included in the City's annual report as a blended component unit, as a special revenue fund, because the City is the largest member of the Joint Venture.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures. The City considers all of its funds to be major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Property taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Fund Financial Statements

The fund financial statements provide information about the City's funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The City considers all of its funds to be major funds, therefore, there are no nonmajor funds.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Major Street Fund - This special revenue fund accounts for revenues from motor fuel taxes, which are restricted by state statute for major street and highway purposes.

Local Street Fund - This special revenue fund accounts for revenues from motor fuel taxes and a tax, when levied, which are restricted by state statute for local street purposes.

Onaway Area Fire Board Fund - This special revenue fund accounts for the blended component unit fire protection services of the Onaway Area Fire Board. Revenues are derived mainly from contributions from the participating local units of government and contributions from the general public.

Courthouse Debt Fund - This debt service fund is used to account for the tax revenues and the payments on the bonds of the Courthouse/City Hall.

Courthouse Construction Fund - This capital projects fund is used to account for the construction and restoration of the Courthouse/City Hall, financed primarily by bonded indebtedness.

The City reports the following major enterprise funds:

Sewer Fund – This fund accounts primarily for the activities of the sewer department system, which is primarily under construction. This fund is financed primarily by user fees.

Water Fund – This fund accounts primarily for the activities of the water department system. This fund is financed primarily by user fees.

Additionally the City of Onaway reports the following fund types:

Internal Service Fund – This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Fiduciary Funds

Tax Collection Fund – This fund accounts for assets held for other governments in an agency capacity. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

RECEIVABLES AND PAYABLES

All receivables are reported at their gross values. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Receivable from other governments represents various shared revenues, grants, and reimbursements from other governments.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2005, reflected in the accompanying financial statements include property taxes levied December 31, 2004. These taxes are due by February 15, 2005, and are added to the County tax rolls after February 28, 2005. The City will receive 100% payment for the delinquent City tax by June, 2005.

The taxable value of the City totaled \$13,441,278, on which ad valorem taxes consisted of 18.8332 mills for the City's operating purposes and .682 mills for debt retirement. Property taxes are recognized in the fiscal year in which they are levied.

RESTRICTED ASSETS

Certain resources are set aside for repayment of the City's sewer and water revenue bonds and unspent grant funds. The amounts are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants and/or other agreements.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the government as assets with an approximate initial individual cost of \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. The City is reporting infrastructure assets prospectively.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year, \$67,504 of interest expense was capitalized as part of the cost of the sewer system assets under construction.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10 – 40 years
Equipment and vehicles	5 – 20 years
Water and sewer systems	40 - 50 years
Infrastructure	20 years

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulated earned but unused sick time benefits, subject to certain limitations. All sick time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations or retirements.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUE

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and budgetary accounting

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the City Commission. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at the end of the fiscal year.

The City Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(CONTINUED)**

Excess of expenditures over appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the function level. During the year ended March 31, 2005, the City incurred expenditures in certain budgetary funds, which exceeded the amount appropriated as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
SPECIAL REVENUE FUND			
ONAWAY AREA FIRE BOARD			
Debt Service - Interest	\$ 2,601	\$ 8,092	\$ 5,491

Bond reserve requirements

The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2005. Revenue Bond Ordinances Nos. 2002-05 and 2003-02 requires the sum of \$11,300 to be set aside as of March 31, 2005.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

The caption on the statement of net assets relating to cash and cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$802,951
Restricted cash and cash equivalents	<u>228,578</u>
	<u>\$1,031,529</u>
Restricted investments	<u>\$16,500</u>

The restricted investments amount consist of certificates of deposit with over a 90 day maturity.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

At year-end the carrying amount of the City's deposits were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$211,441	\$211,441
Uninsured – uncollateralized	836,588	926,497
	<u>\$1,048,029</u>	<u>\$1,137,938</u>

All cash and cash equivalent accounts are in the name of the City and a specific fund. They are recorded in City records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

NOTE 4: RECEIVABLES

The composition of receivables is as follows as of March 31, 2005:

	Governmental Activities	Business-type Activities
Taxes receivable	\$68,705	\$ -
Accounts receivable	11,629	40,482
Receivable from other governments	69,243	250
	<u>\$149,577</u>	<u>\$40,732</u>

At the end of the current fiscal year, deferred revenue reported in the governmental funds was \$17,489 and the business-type funds, \$201,130.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: CAPITAL ASSETS

Capital asset activity was as follows for the year ended March 31, 2005:

<u>Government Activities:</u>	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2005</u>
Not being depreciated:				
Construction in Progress Infrastructure	\$306,284 -	\$505,028 81,852	\$ -	\$811,312 81,852
Being depreciated:				
Buildings	196,794	-	-	196,794
Vehicles-police	36,969	-	-	36,969
Equipment – fire	72,251	-	-	72,251
Equipment – general	249,009	-	-	249,009
Subtotal	861,307	586,880	-	1,448,187
Less accumulated depreciation	(325,158)	(24,709)	-	(349,867)
Total	\$536,149	\$562,171	\$ -	\$1,098,320
<u>Business-type Activities:</u>	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2005</u>
Not being depreciated:				
Land	\$20,574	\$ -	\$ -	\$20,574
Construction in Progress-sewer	4,384,960	2,364,575	-	6,749,535
Construction in Progress-water	-	143,238	-	143,238
Being depreciated:				
Water system	1,038,110	-	-	1,038,110
Water equipment	12,334	-	-	12,334
Subtotal	5,455,978	2,507,813	-	7,963,791
Less accumulated depreciation	(445,326)	(22,729)	-	(468,055)
Total	\$5,010,652	\$2,485,084	\$ -	\$7,495,736

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the City's governmental activities as follows:

General government	\$12,361
Capital assets held by the government's Internal service fund are charged to the Various functions based on their usage Of the assets.	<u>12,348</u>
	<u>\$24,709</u>

Depreciation was charged to the City's Business-type activities as follows:

Water	\$22,729
Sewer	<u>-</u>
	<u>\$22,729</u>

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amounts of interfund receivables and payables in the governmental activities as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$50	\$ -
Fiduciary fund – Tax Collection	<u>-</u>	<u>50</u>
Total	<u>\$50</u>	<u>\$50</u>

Interfund transfers consisted of the following for the year ended March 31, 2005:

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General	\$132,414	\$ -
Special Revenue-Major Street	15,591	-
Special Revenue-Local Street		15,591
Courthouse Construction Fund		50,414
Sewer Fund	<u>-</u>	<u>82,000</u>
Total	<u>\$148,005</u>	<u>\$148,005</u>

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: LONG-TERM DEBT

A summary of long term obligations at March 31, 2005, and transactions related thereto for the year then ended is as follows:

	Balance April 1, 2004	Additions	(Reductions)	Balance March 31, 2005	Due Within One Year
Governmental activities					
\$150,000 U.S.D.A. 2004 general obligation unlimited tax bonds for construction of courthouse building, payable in annual installments of \$2,000 to \$8,000, bearing interest semi-annually at 4.3759% through September, 2032.	\$ -	\$150,000	(\$2,000)	\$148,000	\$2,000
1992 Michigan Transportation Bonds. The bonds are dated September 1, 1992, are payable serially beginning March 1, 1993 and bear interest from 4.0% to 6.0%.	22,000	-	(7,000)	15,000	7,000
Note payable – Fire equipment annual payments of \$5,491, including interest at 4.68%.	15,043	-	(4,788)	10,255	5,011
Note payable – Fire Station Facility, annual payments of \$17,105, including interest at 5.51% through September 15, 2007.	134,078	-	(9,717)	124,361	10,253
Internal Service Fund: Note payable – New Holland Backhoe, annual payments of \$8,180, plus interest at 5.3%, through December, 2004.	8,180	-	(8,180)	-	-
Internal Service Fund: Note payable – Kubota Tractor annual payments of \$3,200, plus interest at 2.96%, through December, 2005.	6,400	-	(3,200)	3,200	3,200
Liability for accrued compensated absences	40,148	1,971	-	42,119	-
Total governmental activities long-term debt	225,849	151,971	(34,885)	342,935	27,464
Business-type activities					
Enterprise Funds					
1974 U.S.D.A. Water Revenue Bonds, due in annual installments ranging from \$5,000 to \$15,000 each January 1 through 2013; bearing interest at 5%.	116,000	-	(11,000)	105,000	11,000

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: LONG-TERM DEBT (CONTINUED)

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance March 31, 2005</u>	<u>Due Within One Year</u>
\$99,000 Water System Improvement Note, due in monthly payments of \$1,887, through July, 2004, including interest at 5.08%.	\$3,749	\$ -	(\$3,749)	\$ -	\$ -
\$1,125,000 U.S.D.A. Sewer System Revenue Bonds, due in annual installments ranging from \$12,000 to \$56,000 each April 1 and October 1 through 2042; bearing interest at 4.50%.	1,125,000	-	(12,000)	1,113,000	-
\$84,000 Sewer System Revenue Bonds, due in annual installments ranging from \$4,000 to \$12,000 each April 1 and October 1 through 2011; bearing interest at 5.60%.	74,000	-	(10,000)	64,000	-
\$283,000 U.S.D.A. Sewer System Revenue Bonds, due in annual installments ranging from \$3,000 to \$16,500 each April 1 and October 1 through 2042; bearing interest at 4.50%.	283,000	-	(3,000)	280,000	-
Total business-type activities long-term debt	1,601,749	-	(39,749)	1,562,000	11,000
Total long-term debt	<u>\$1,827,598</u>	<u>\$151,971</u>	<u>(\$74,634)</u>	<u>\$1,904,935</u>	<u>\$38,464</u>

Annual debt service requirements for the above obligations, except for the liability for accrued compensated absences, is as follows:

<u>Year Ended March 31,</u>	<u>Governmental Principal</u>	<u>Activities Interest</u>	<u>Business-type Principal</u>	<u>Activities Interest</u>
2006	\$27,464	\$15,445	\$11,000	\$38,384
2007	26,061	14,033	37,000	70,351
2008	13,414	12,613	38,000	68,494
2009	15,043	11,838	39,500	66,602
2010	15,706	11,029	41,500	64,628
2011-2015	85,128	49,061	167,000	293,604
2016-2020	24,000	25,350	125,000	262,778
2021-2025	30,000	18,768	156,000	231,233
2026-2030	40,000	10,726	193,500	192,094
2031-2035	24,000	2,292	241,000	143,370
2036-2040	-	-	300,000	82,688
2041-2043	-	-	212,500	14,524
Total	<u>\$300,816</u>	<u>\$171,155</u>	<u>\$1,562,000</u>	<u>\$1,528,750</u>

Interest expense for the year ended March 31, 2005 in the statement of activities was \$17,394 for governmental activities and \$5,824 for business-type activities.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City has issued revenue bonds to finance construction of two enterprise funds, which provide water services and, when completed, sewer services. Because both of these individual funds account separately for each activity, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

NOTE 9: PENSION PLAN

Plan description. The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at Municipal Employees Retirement System, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. The obligation to contribute to and maintain the system for the City employees was established by the City Council. The City is required to contribute at an actuarially determined rate of 7.97% for department heads, of which the City contributes 5.27% and the department heads contribute 2.70%; and 8.0% for the department of public works employees of which the employees share the cost by one-half. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

Annual Pension Cost. For the year ended March 31, 2005 the City's annual pension cost of \$13,864 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 8% investment rate of return, and (b) projected salary increases ranging from 4.5% to 12.9% per year. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

	Year-Ended 2002	December 31, 2003	2004
Annual pension cost (APC)	\$ 0	\$ 7,962	\$ 12,969
Percentage of APC contributed	n/a	100%	100%
Net pension obligation	\$ 0	\$ 0	\$ 0
Actuarial value of assets	\$296,101	\$318,486	\$344,865
Actuarial Accrued Liability (AAL)	\$263,424	\$329,088	\$349,632
Unfunded (Excess) AAL	(\$32,677)	\$ 10,602	\$4,767
Funded ratio	112%	97%	99%
Covered payroll	\$159,659	\$170,347	\$172,927
UAAL (Excess) as a percentage of covered payroll	0%	6%	3%

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10: AMBULANCE SERVICE

The City has entered into an agreement with ten area units of government to provide ambulance service to local residents. The expenses involved in overall operations of the ambulance service are split equally between the nine units, and the expenses associated with ambulance runs within a governmental jurisdiction are absorbed by that governmental unit.

The governmental units involved have entered into a loan agreement with a balance as of March 31, 2005 of \$6,466 for the purchase of land and building to house the ambulance service. Each entity is responsible for their portion of the debt. For the year ended March 31, 2005, the City's share of expenditures is \$16,398. Financial statements can be obtained through the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

NOTE 11: FIRE SERVICE

The City has entered into an agreement with two local townships to form an Onaway Area Fire Board to provide fire service to local residents. All expenses are charged to the Fire Board to the participating units according to a formula based on comparative SEV and population. Long-term debt incurred to purchase a new fire station facility is shown in long-term debt (Note 7). For the year ended March 31, 2005, the City's share of expenditures is \$15,556. The Onaway Area Fire Board does not issue separate financial statements.

NOTE 12: COMMITMENTS

The City has entered into various contracts for approximately \$3,500,000 to construct phase III of a wastewater treatment plant and have also approved a sewer bond ordinance for approximately \$1,100,000 and received commitments for grant funding.

The City has entered into a contract for approximately \$154,000 to build a department of public works building to be funded by a \$60,000 grant and the sale of related City department of public works property.

NOTE 13: CONTINGENCIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14: RISK MANAGEMENT

The City of Onaway participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the City. The City pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan. The City carries coverage for general liability, wrongful acts, law enforcement, automobile, crime, inland marine liability and bonding for public officials errors and omissions. Additionally, the City has purchased commercial insurance for workman's compensation benefits. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$245,000	\$245,000	\$257,343	\$12,343
State shared revenues	131,950	131,950	138,720	6,770
Licenses and permits	500	500	567	67
Charges for services	57,200	57,200	69,366	12,166
Fines and forfeits	1,200	1,200	2,124	924
Interest	500	500	888	388
Rents	9,840	9,840	9,670	(170)
Donations	5,000	5,000	47,168	42,168
Other	2,000	2,000	8,157	6,157
TOTAL REVENUES	453,190	453,190	534,003	80,813
EXPENDITURES:				
LEGISLATIVE				
City council	38,207	38,207	13,414	24,793
GENERAL GOVERNMENT				
City Administrator	99,211	101,711	101,704	7
Elections	2,500	2,500	1,903	597
Assessor	7,100	7,100	6,635	465
Professional services	18,124	18,124	16,706	1,418
Board of review	1,257	1,278	1,278	-
City hall and grounds	32,294	43,331	42,888	443
Cemetery	9,930	8,430	3,640	4,790
Promotion	10,903	18,403	18,177	226
TOTAL GENERAL GOVERNMENT	181,319	200,877	192,931	7,946
PUBLIC SAFETY				
Police Department	82,500	82,500	80,580	1,920
Fire	16,000	16,209	15,556	653
Ambulance	16,398	16,398	16,398	-
TOTAL PUBLIC SAFETY	114,898	115,107	112,534	2,573
PUBLIC WORKS				
Sidewalks	3,077	3,077	2,505	572
Street lighting	15,000	15,000	12,143	2,857
Sanitation	40,000	40,000	36,195	3,805
TOTAL PUBLIC WORKS	58,077	58,077	50,843	7,234
RECREATION AND CULTURE-PARKS	20,663	21,663	21,354	309
CAPITAL OUTLAY	-	26,663	26,663	-
TOTAL EXPENDITURES	413,164	460,594	417,739	42,855
REVENUES OVER (UNDER) EXPENDITURES	40,026	(7,404)	116,264	123,668
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(31,530)	(139,800)	(132,414)	7,386
NET CHANGE IN FUND BALANCE	8,496	(147,204)	(16,150)	131,054
FUND BALANCE, BEGINNING OF YEAR	303,879	303,879	303,879	-
FUND BALANCE, END OF YEAR	\$312,375	\$156,675	\$287,729	\$131,054

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State shared revenue	\$62,000	\$62,000	\$61,498	(\$502)
Interest income	500	500	510	10
TOTAL REVENUES	62,500	62,500	62,008	(492)
EXPENDITURES:				
Public works - Highways and Streets:				
Street construction	-	-	-	-
Routine maintenance	8,897	11,397	11,362	35
Traffic services	2,089	2,089	366	1,723
Winter maintenance	11,692	13,192	9,685	3,507
Administration	6,200	6,250	6,236	14
TOTAL EXPENDITURES	28,878	32,928	27,649	5,279
REVENUES OVER (UNDER) EXPENDITURES	33,622	29,572	34,359	4,787
OTHER FINANCING (USES)				
Operating transfer (out)	(15,500)	(15,600)	(15,591)	9
NET CHANGE IN FUND BALANCE	18,122	13,972	18,768	4,796
FUND BALANCE, BEGINNING OF YEAR	91,442	91,442	91,442	-
FUND BALANCE, END OF YEAR	\$109,564	\$105,414	\$110,210	\$4,796

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State shared revenue	\$32,000	\$32,000	\$37,028	\$5,028
Federal revenue	-	149,788	81,852	(67,936)
Interest income	200	200	164	(36)
TOTAL REVENUES	32,200	181,988	119,044	(62,944)
EXPENDITURES:				
Public works - Highways and Streets:				
Street construction	-	149,788	81,852	67,936
Routine maintenance	12,139	17,139	17,000	139
Traffic services	1,589	1,589	618	971
Winter maintenance	15,768	21,768	21,743	25
Administration	3,200	3,200	3,745	(545)
Debt Service:				
Principal	7,000	7,000	7,000	-
Interest and paying agent fees	2,000	2,000	1,644	356
TOTAL EXPENDITURES	41,696	202,484	133,602	68,882
REVENUES OVER (UNDER) EXPENDITURES	(9,496)	(20,496)	(14,558)	5,938
OTHER FINANCING SOURCES				
Operating transfer in	15,500	15,500	15,591	91
NET CHANGE IN FUND BALANCE	6,004	(4,996)	1,033	6,029
FUND BALANCE, BEGINNING OF YEAR	28,661	28,661	28,661	-
FUND BALANCE, END OF YEAR	\$34,665	\$23,665	\$29,694	\$6,029

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
ONAWAY AREA FIRE BOARD FUND
FOR THE YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Charges for services	\$41,275	\$41,275	\$44,254	\$2,979
Interest income	-	-	1,329	1,329
Donations	-	-	128,821	128,821
TOTAL REVENUES	41,275	41,275	174,404	133,129
EXPENDITURES:				
Current:				
Public safety	24,169	24,169	20,140	4,029
Debt Service:				
Principal	14,505	14,505	14,505	-
Interest and paying agent fees	2,601	2,601	8,092	(5,491)
TOTAL EXPENDITURES	41,275	41,275	42,737	(1,462)
REVENUES OVER (UNDER) EXPENDITURES	-	-	131,667	131,667
FUND BALANCES, BEGINNING OF YEAR	42,380	42,380	42,380	-
FUND BALANCES, END OF YEAR	\$42,380	\$42,380	\$174,047	\$131,667

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULES OF BONDED INDEBTEDNESS

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2005

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
GOVERNMENTAL ACTIVITIES:			
1992 Michigan Transportation Fund Bonds			
Payments due:			
September 1 and March 1	9/01/92	\$76,000	5.80%
			6.00
			6.00
TOTAL 1992 MICHIGAN TRANSPORTATION FUND BONDS			
2004 Courthouse General Obligation Bonds			
Payments due:			
September 1 and March 1	6/15/04	\$150,000	4.375%
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			6.00
TOTAL 2004 COURTHOUSE GENERAL OBLIGATION BONDS			
OTAL GOVERNMENTAL ACTIVITIES BONDED INDEBTEDNESS:			

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2005
3/01/05	\$7,000	\$ -
3/01/06	7,000	7,000
3/01/07	8,000	8,000
		<u>15,000</u>
9/01/04	\$2,000	\$ -
9/01/05	2,000	2,000
9/01/06	2,000	2,000
9/01/07	2,000	2,000
9/01/08	3,000	3,000
9/01/09	3,000	3,000
9/01/10	3,000	3,000
9/01/11	3,000	3,000
9/01/12	4,000	4,000
9/01/13	4,000	4,000
9/01/14	4,000	4,000
9/01/15	4,000	4,000
9/01/16	5,000	5,000
9/01/17	5,000	5,000
9/01/18	5,000	5,000
9/01/19	5,000	5,000
9/01/20	5,000	5,000
9/01/21	6,000	6,000
9/01/22	6,000	6,000
9/01/23	6,000	6,000
9/01/24	7,000	7,000
9/01/25	8,000	8,000
9/01/26	8,000	8,000
9/01/27	8,000	8,000
9/01/28	8,000	8,000
9/01/29	8,000	8,000
9/01/30	8,000	8,000
9/01/31	8,000	8,000
9/01/32	8,000	8,000
		<u>148,000</u>
		<u>\$163,000</u>

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
MARCH 31, 2005

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES:			
1974 Water Revenue Bonds			
Payments due:			
January 1 and July 1	1/07/74	\$275,000	5.0%
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
TOTAL WATER REVENUE BONDED INDEBTEDNESS			
2003 Sanitary Sewer System Revenue Bond, Series B			
Payments due:			
April 1 and October 1	9/16/2002	\$84,000	5.60%
			5.60
			5.60
			5.60
			5.60
			5.60
			5.60
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES B			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2005
---------------------	---------------------------------	--

1/01/05	\$11,000	\$ -
1/01/06	11,000	11,000
1/01/07	12,000	12,000
1/01/08	12,000	12,000
1/01/09	13,000	13,000
1/01/10	14,000	14,000
1/01/11	14,000	14,000
1/01/12	14,000	14,000
1/01/13	15,000	15,000

105,000

4/01/05	\$10,000	\$ -
4/01/06	10,000	10,000
4/01/07	10,000	10,000
4/01/08	10,000	10,000
4/01/09	10,000	10,000
4/01/10	12,000	12,000
4/01/11	12,000	12,000

64,000

MARCH 31, 2005

4.50

TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES A

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2005
---------------------	---------------------------------	--

4/01/05	\$ -	\$ -
4/01/06	12,000	12,000
4/01/07	13,000	13,000
4/01/08	13,000	13,000
4/01/19	14,000	14,000
4/01/10	15,000	15,000
4/01/11	15,000	15,000
4/01/12	16,000	16,000
4/01/13	17,000	17,000
4/01/14	17,000	17,000
4/01/15	18,000	18,000
4/01/16	19,000	19,000
4/01/17	20,000	20,000
4/01/18	21,000	21,000
4/01/19	22,000	22,000
4/01/20	23,000	23,000
4/01/21	24,000	24,000
4/01/22	25,000	25,000
4/01/23	26,000	26,000
4/01/24	27,000	27,000
4/01/25	28,000	28,000
4/01/26	30,000	30,000
4/01/27	31,000	31,000
4/01/28	32,000	32,000
4/01/29	34,000	34,000
4/01/30	35,000	35,000
4/01/31	37,000	37,000
4/01/32	39,000	39,000
4/01/33	40,000	40,000
4/01/34	42,000	42,000
4/01/35	44,000	44,000
4/01/36	46,000	46,000
4/01/37	48,000	48,000
4/01/38	50,000	50,000
4/01/39	52,000	52,000
4/01/40	55,000	55,000
4/01/41	57,000	57,000
4/01/42	56,000	56,000

1,113,000

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS (CONTINUED)
MARCH 31, 2004

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES (CONTINUED):			
2003 Sanitary Sewer System Revenue Bond, Series C			
Payments due:			
April 1 and October 1	5/6/2003	\$283,000	4.50%
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
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			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES C			

TOTAL BUSINESS-TYPE ACTIVITIES BONDED INDEBTEDNESS:

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2005
---------------------	---------------------------------	--

4/01/05	\$ -	\$ -
4/01/06	3,000	3,000
4/01/07	3,000	3,000
4/01/08	3,500	3,500
4/01/19	3,500	3,500
4/01/10	3,500	3,500
4/01/11	4,000	4,000
4/01/12	4,000	4,000
4/01/13	4,000	4,000
4/01/14	4,500	4,500
4/01/15	4,500	4,500
4/01/16	5,000	5,000
4/01/17	5,000	5,000
4/01/18	5,000	5,000
4/01/19	5,500	5,500
4/01/20	5,500	5,500
4/01/21	6,000	6,000
4/01/22	6,000	6,000
4/01/23	6,500	6,500
4/01/24	7,000	7,000
4/01/25	7,000	7,000
4/01/26	7,500	7,500
4/01/27	7,500	7,500
4/01/28	8,000	8,000
4/01/29	8,500	8,500
4/01/30	9,000	9,000
4/01/31	9,000	9,000
4/01/32	9,500	9,500
4/01/33	10,000	10,000
4/01/34	10,500	10,500
4/01/35	11,000	11,000
4/01/36	11,500	11,500
4/01/37	12,000	12,000
4/01/38	12,500	12,500
4/01/39	13,000	13,000
4/01/40	13,500	13,500
4/01/41	14,500	14,500
4/01/42	16,500	16,500

280,000

\$1,562,000

CITY OF ONAWAY
SCHEDULE OF CONTRACTUAL INDEBTEDNESS
MARCH 31, 2005

	INTEREST RATE	NOTES PAYABLE APRIL 1, 2004	NOTE ISSUED
GOVERNMENTAL ACTIVITIES:			
1999 New Holland Backhoe	5.3%	\$8,180	\$ -
Kubota Tractor	2.96	6,400	-
Fire Equipment	4.68	15,043	-
Fire Station Facility	5.51	134,078	-
TOTAL GOVERNMENTAL ACTIVITIES:		163,701	-
BUSINESS-TYPE ACTIVITIES:			
\$99,000 Water System Improvement	5.08	3,749	-
TOTAL NOTES PAYABLE		\$167,450	\$ -

NOTE PAYMENTS	NOTES PAYABLE MARCH 31, 2005
------------------	------------------------------------

\$8,180	\$ -
---------	------

3,200	3,200
-------	-------

4,787	10,256
-------	--------

9,718	124,360
-------	---------

25,885	137,816
--------	---------

3,749	-
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\$29,634	\$137,816
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FEDERAL AWARDS SUPPLEMENTARY INFORMATION

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2005

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTORS NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE				
Rural Development, Rural Utilities Service, Water and Waste Disposal Systems for Rural Communities, Other Federal Assistance, Sanitary Sewer System - Grant	10.760	N/A	\$1,568,800	\$1,568,961
Rural Development Administration Community Facilities Loans and Grants Community Facilities Loan	10.766	N/A	150,000	150,000
Rural Development Administration Community Facilities Loans and Grants Community Facilities Grant	10.766	N/A	200,000	200,000
TOTAL U.S DEPARTMENT OF AGRICULTURE			1,918,800	1,918,961
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Michigan Strategic Fund, Community Development Block Grant - City Sewer and Water Project	14.228	MSC 203039-EDIG	459,261	459,261
Passed through Michigan Strategic Fund, Community Development Block Grant - Downtown Development Project	14.228	MSC 201082-EDIG	70,326	70,326
TOTAL U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			529,587	529,587
U.S DEPARTMENT OF COMMERCE				
Economic Development Assistance Public Works and Development Facilities	11.300	06-01-04672	782,485	563,866
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$3,230,872</u>	<u>\$3,012,414</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2005

<u>GRANTOR/PROGRAM TITLE</u>	<u>GRANT NUMBER</u>	<u>CURRENT YEAR RECEIPTS</u>	<u>CURRENT YEAR EXPENDITURES</u>
MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY			
Surface Water Quality Division - Clean Michigan Initiative			
Onaway Wastewater Collection and Treatment System	2001-0041	<u>\$326,438</u>	<u>\$326,438</u>
TOTAL NON-FEDERAL FINANCIAL ASSISTANCE		<u><u>\$326,438</u></u>	<u><u>\$326,438</u></u>

CITY OF ONAWAY
NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2005

Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals

The following is a reconciliation of total federal expenditures and revenues reported on the Schedule of Expenditures of Federal Awards to the federal expenditures and revenues administered by the City.

Enterprise Funds:

Sewer:

Recorded as construction in progress-sewer	\$2,364,575
Recorded as operating expenses-sewer	6,586
Less – non federal amounts recorded as construction in progress:	
City contribution recorded as construction in progress	(4,163)

Total Federal Expenditures, Enterprise Fund – Sewer	<u>2,366,998</u>
---	------------------

Water:

Recorded as construction in progress-water	<u>143,238</u>
--	----------------

Total Federal Expenditures, Enterprise Funds	<u>2,510,236</u>
--	------------------

Local Street Fund:

Recorded as street construction/construction in progress	<u>81,852</u>
--	---------------

Courthouse Construction Fund:

Recorded as capital outlay	478,365
Finance costs recorded as interest and fees	8,338
Less – non federal amounts recorded as capital outlay:	
City contribution recorded as capital outlay	(66,377)

Total Federal Expenditures, Courthouse Construction Fund	<u>420,326</u>
--	----------------

Total Expenditures per Schedule of Expenditures of Federal Awards	<u>3,012,414</u>
---	------------------

Reconciliation to SEFA Current Year Receipts

Deferred federal revenues recorded in:

Governmental Funds	201,130
Enterprise Funds	17,489
Grant revenues due in subsequent year	(161)

Total Receipts per Schedule of Expenditures of Federal Awards	<u>3,230,872</u>
---	------------------

Reconciliation to federal revenues recorded in financial statements

Less: deferred federal revenues	<u>(218,619)</u>
---------------------------------	------------------

Total federal revenues per financial statements	<u>\$3,012,253</u>
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CITY OF ONAWAY
NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended March 31, 2005

**Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals
(Continued)**

Reconciliation to federal revenues recorded in financial statements (continued)

Recorded in:

Governmental funds as federal revenue	\$352,178
Governmental funds as bond proceeds	150,000
Proprietary funds as federal revenues	2,510,075

Total federal revenues per financial statements	<u>\$3,012,253</u>
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Note 2-Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Onaway and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3 - Loans Outstanding

The City of Onaway has outstanding federal loan balances in the amount of \$1,646,000 at March 31, 2005, as shown at Note 7 in the accompanying notes to the financial statements.

Note 4 -Subrecipient's

The City of Onaway provided no federal award dollars to a subrecipient during the fiscal year.

RICHARD E. MAHLMEISTER



CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:

*American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

November 30, 2005

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Onaway, Onaway, Michigan*** as of and for the year ended March 31, 2005, which collectively comprise the ***City of Onaway's*** basic financial statements and have issued my report thereon dated November 30, 2005. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

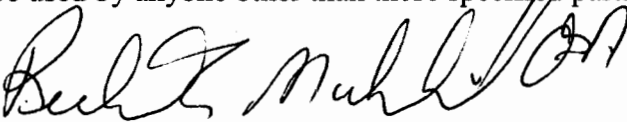
In planning and performing my audit, I considered the ***City of Onaway's*** internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Onaway's* financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objection of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the *City of Onaway* in a separate letter dated November 30, 2005.

This report is intended solely for the information and use of management, members of the board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard E. Mahlmeister". The signature is fluid and cursive, with a large, stylized "M" and "H".

Richard E. Mahlmeister, C.P.A.

RICHARD E. MAHLMEISTER



Member:

*American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants*

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

November 30, 2005

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

Compliance

I have audited the compliance of the *City of Onaway, Onaway, Michigan*, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2005. The *City of Onaway's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the *City of Onaway's* management. My responsibility is to express an opinion on the *City of Onaway's* compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Onaway's* compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that the audit provides a reasonable basis for my opinion. The audit does not provide a legal determination on the *City of Onaway's* compliance with those requirements.

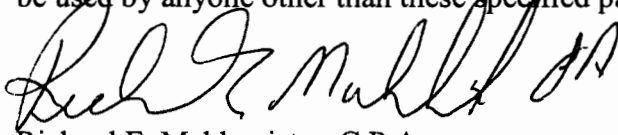
In my opinion, the *City of Onaway, Onaway, Michigan*, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended March 31, 2005.

Internal Control Over Compliance

The management of the *City of Onaway*, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations contracts, and grants applicable to federal programs. In planning and performing the audit, I considered the *City of Onaway's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, members of the board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Richard E. Mahlmeister, C.P.A.

CITY OF ONAWAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended March 31, 2005

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the basic financial statements.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. I noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements, which would need to be reported in accordance with *Government Auditing Standards*.
4. An unqualified opinion was issued on compliance for major programs. I did not disclose any findings related to internal controls or compliance related to the major programs tested.
5. There are no findings relative to the major federal award programs.
6. Identification of major programs:

<u>CFDA#</u>	<u>Name of Federal Program or Cluster</u>
10.760	Rural Development, Rural Utilities Service
10.766	Rural Development, Community Facilities Loans and Grants
14.228	Community Development Block Grant
11.300	Public Works and Development Facilities

7. The threshold used to distinguish between a Type A and B program was \$300,000.
8. The City did not qualify as a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS

1. No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. No federal award findings or questioned costs are reported.

RICHARD E. MAHLMEISTER



Member:

American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

November 30, 2005

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

In planning and performing my audit of the financial statements of the **City of Onaway, Onaway, Michigan** for the year ended March 31, 2005, I considered the City's internal control structure to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I noted certain matters involving the internal control structure and other operational matters, presented for your consideration, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 30, 2005 on the financial statements of the **City of Onaway, Onaway, Michigan**.

Thank you for the opportunity to serve the **City of Onaway**. I appreciate the assistance I received from both Joe Hefele and Kelli Stockwell. Best wishes in the next year.

Sincerely,

Richard E. Mahlmeister, C.P.A.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2005, the City incurred expenditures in certain budgetary funds, which exceeded the amount appropriated, as shown in the body of the financial statements.

The City continues to make great improvement in this area. As the excess of expenditures over appropriations were incurred primarily in the Onaway Area Fire Board Fund I, again, suggest that the City work with the Fire Board to ensure that the budgeting procedures comply with P.A. 621 of 1978.

BOND RESERVES

The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2005. Revenue Bond Ordinances Nos. 2002-05 (\$1,125,000, Sanitary Sewer System Revenue Bond, Series A) and 2003-02 (\$283,000, Sanitary Sewer System Revenue Bond, Series C) requires the sum of \$11,300 to be set aside as of March 31, 2005. I understand that the U.S.D.A. is aware of this and has expressed willingness to work with the City on finding solutions for funding these required reserves once the sewer system becomes fully operational. I, of course, recommend that the City accept this assistance that has been offered.

I would also like to remind the City that the \$84,000 Sanitary Sewer System Revenue Bond, Series A, Ordinance No. 2002-06 has reserve requirements to meet, once the sewer system becomes fully operational

CAPITAL ASSETS

I recommend that the City Commission review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$2,000 to \$5,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.